

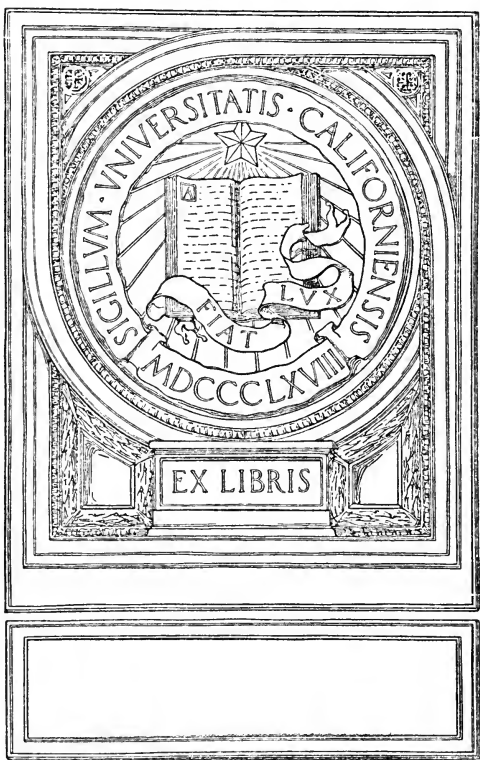
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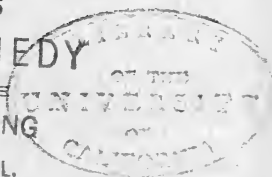


GIFT
MAY 26 1920

Acceptances

LC

COMPLIMENTS
FRANK KENNEDY
REPRESENTATIVE
907 KOHL BUILDING
SAN FRANCISCO, CAL.



Guaranty Trust Company
of New York

C1919



Acceptances

UNIV. OF
CALIFORNIA

Guaranty Trust Company of New York

140 Broadway

FIFTH AVENUE OFFICE
Fifth Avenue and 43rd Street

MADISON AVENUE OFFICE
Madison Avenue and 60th Street

LONDON OFFICES
32 Lombard St., E. C.
5 Lower Grosvenor Pl., S. W.

PARIS OFFICE
Rue des Italiens, 1 & 3

HG 1655

G8

TO THE
AMERICAN

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GUARANTY TRUST COMPANY OF NEW YORK

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Foreword

The termination of the war has brought us problems of reconstruction that promise to be even more difficult of solution than the vexing questions arising out of the actual conduct of hostilities. As the war brought us into more intimate contact with all of the allied, and virtually all of the neutral powers, and as we are called upon to take an active and decisive part in the settlement of the affairs of the world, naturally we are forced to meet new conditions, and, at the same time, are brought face to face with opportunities of great promise. Among these opportunities opened to American merchants is the vast field of trade with Europe, South America, Africa and the Orient.

Our foreign trade has already assumed proportions heretofore desired but never realized. It must be protected and fostered in every possible way, and placed on a sane and sound basis which will insure its rapid and steady growth in order that America may hold the place she has won.

Every good means of furthering this end must be utilized, and everything that strengthens our financial and industrial organization will have a stabilizing and permanent effect on our institutions in general. The placing of credit on a sound basis is one of the most potent factors in the stabilizing process during this trying period of reconstruction, and the use of trade and bank acceptances will aid greatly in bringing about this result. Their general adoption by American merchants will promote the further development and broader expansion of our foreign trade, for both are of proven worth, as sound instruments of credit.

June, 1919.

Acceptances

There are two kinds of acceptances—Trade Acceptances and Bank Acceptances.

Trade Acceptances

Use in Europe

In Great Britain and in many countries of Continental Europe practically every commercial transaction is financed by means of a time draft, or bill of exchange. The draft is drawn by the seller of the merchandise and presented to the buyer, who, if he finds it satisfactory, writes across its face the word "Accepted," signs his name, and returns the draft to the seller. It then becomes a trade acceptance—a sound, circulating medium of finance which commands a low rate of interest and which the seller, if he desires, may discount at his bank.

Although European countries have long realized the many advantages of the trade acceptance over the open book account in financing commercial transactions, merchants in America have been slow to grasp and utilize

the opportunities offered by the acceptance method.

Not an Innovation in United States

The use of the trade acceptance in this country prior to the Civil War was more or less general, but after that conflict, the increasing financial disorganization, and the risk attending the granting of long credits, created a demand for cash, which made the cash discount system so popular that it has since continued in favor. This led to the open book account. While the trade acceptance today is being used to a much greater extent than a few years ago, goods are still bought and sold largely on open account.

A very active and aggressive propaganda is being carried on throughout the principal commercial centres of the country in favor of trade acceptances, and their use has considerably increased. Many of the leading commercial and industrial concerns have adopted this new system of credit and most banks are inclined to purchase such two name paper arising from actual commercial transactions between the drawer and the acceptor.

During the last eight months of 1918 under the rates established by the Federal Reserve Bank of New York, domestic trade acceptances with from 16 to 90 days to run were rediscounted at $4\frac{1}{2}$ per centum, whereas commercial paper having the same period to run rediscounted at $4\frac{3}{4}$ per centum. This preferential rate in favor of trade acceptances by all Federal reserve banks shows the official endorsement by the Federal Reserve Board of the trade acceptance system of credit.

Trade Acceptance Defined

A trade acceptance is a time draft or bill of exchange, drawn by the seller of goods on the buyer for the purchase price, and accepted by the buyer, payable on a certain date at a place designated on the face of the instrument. A trade acceptance amounts to a negotiable guarantee by the purchaser of goods that at a specified time and place, he will pay the purchase price. An acceptance being a negotiable instrument, the seller, by means of it, may obtain the use of the outlay it represents for further enterprises by selling it to his bank.

Distinguished from Sight Draft or Promissory Note

A note is ordinarily used to borrow money or to settle overdue obligations. A trade acceptance shows on its face that it is drawn by the seller on the purchaser of merchandise for the price of the goods. When accepted, it becomes a valid promise to pay on a specified date, a negotiable instrument equally as binding upon the person accepting it as his promissory note would be. As a trade acceptance is an obligation of the buyer indorsed by the seller, the bank discounting it is secured by two name instead of by one name paper, as is the case with a promissory note.

Trade and bank acceptances are instruments of credit which should be employed in the financing of business and industry—in the moving of crops, and in a thousand other ways. Now that the war has been fought to a successful conclusion and American merchants have such a promising field for their operations, they should make use of trade and bank acceptances as the best possible

method of carrying on both their foreign and domestic trade.

Method of Using

The seller desiring to use the acceptance method, in making out an invoice for a sale of goods, forwards with the invoice, a time bill or draft drawn on the purchaser for the purchase price, payable at a specified date; or where the buyer makes several purchases of small amounts during the month, the seller in making up the monthly statement forwards with it a draft or bill made out for the total amount due. When the purchaser of goods receives the draft or bill he may pay it at once, having deducted whatever is allowed as a discount for prompt payment in cash, or he may write across the face thereof the date and the words, for example, "Accepted—payable at Guaranty Trust Company of New York." The buyer then signs his name and returns the instrument to the seller. The latter either keeps it until a few days before it matures, when he sends it to his bank, which makes collection from the

Due SEP 18 1918

TRADE ACCEPTANCE

No. 2000.

\$ 1,000.⁰⁰/₁₀₀

June 19 1918

New York, N. Y.

after sight

pay to the order of **OURSELVES**

Dollars

00

100

The obligation of the acceptor hereof arises out of the purchase of goods from the drawer, maturity being in conformity with original terms of purchase. The drawee may accept this bill payable at any bank, trust company or banker's office in the United States which he may designate.

To

John Doe & Co.,

(Name of drawee)

Richard Roe & Co.

(Signature of drawer)

(Street address)

Date

(City)

New York, N.Y.

Payable at

Location of Bank

(Place of payment)

(Designate Bank or Trust Company)

Trade Acceptance

bank at which the instrument is payable, or if the seller desires funds, he may discount it at his bank or sell it in the open market through an acceptance dealer.

The place of payment is at the office of the buyer of the goods, namely, the acceptor, if no other place is designated. To facilitate the collection of acceptances, the paper should be made payable at the acceptor's bank, and the banker and acceptor should make arrangements so that maturing acceptances are charged to the acceptor's account on the date of maturity. In most states, however, the banker may, automatically charge maturing acceptances to his customer's account.

When Not to be Used

In countries abroad where bills of exchange and acceptances have reached their highest development as credit instruments and circulating mediums, it has been the custom that they shall be issued for commercial purposes or against actual business transactions. They should represent current merchandise transactions connected with the

purchase and sale of goods, and should never be given for overdue accounts or borrowed money. The custom in this country follows the rulings of the Federal Reserve Board respecting eligibility for discount and purchase by Federal reserve banks.

Open Account and Acceptance Methods Compared

Open Account Ties up Capital

The open account system with its indefinite time of payment, is a business habit with many disadvantages. One defect is that it forces the seller to carry the financial burden of the buyer. The open account ties up the seller's invested or borrowed capital for an indefinite period, during which he receives no stated compensation for it.

The trade acceptance does not lessen the advantage of the buyer. He obtains his credit for a definite instead of an indefinite period of time. It is of service to the seller, for he can take the acceptance to his bank, discount it at a lower rate than is accorded to any other commercial paper, and have

the use of the money. The bank—not the seller—carries the credit, and all parties to the transaction are placed on an equitable basis.

Trade acceptances are not meant to defer payment in ordinary transactions where the buyer usually pays cash on the spot or within ten days. They are not needed when business is done on that basis, and the buyer is not forced to use acceptances if he prefers paying cash and saving the discount allowed for cash payments.

Uncertainty of Open Accounts

As assets, open accounts are neither quick nor sure. They are frequently slow and uncertain of realization. Even the best of them are seldom marketable for more than fifty per centum of their face value. In the form of eligible trade acceptances, accounts can be converted in full into cash at a better rate of interest than is commanded by promissory notes.

Unreasonable Extensions of Time

A disadvantage of the open account system

is the ease with which payment can be postponed, thus enabling purchasers to abuse their credit by putting off the settlement of their obligations for long periods of time without even paying interest. This results from the fact that since the time of payment is usually not fixed, the privilege of obtaining an extension is regarded as a matter of course.

Difficulties in Event of Suit

If it becomes necessary to sue on an open account, in order to collect, the correctness of the book entries must first be proved. The buyer thereupon may raise objections which may cause much delay. The trade acceptance is an acknowledgment of the receipt of the goods and of a proper invoice, and is proof of the validity of the debt, since the debtor has already admitted the existence of a valid contract by his acceptance of the terms of the bill.

When an innocent third party becomes a bona fide holder of the paper, payment cannot be avoided by seeking refuge in the usual technical defenses, since only the signature

of the acceptor needs to be proved and no off-sets or counter-claims of any sort can be urged.

Costliness of Open Account System

The open account is costly. The expense involved in collecting slow accounts, in extensions of the time of payment, and in trade discounts—all characteristic of the open account system—constitutes, in the aggregate, a heavy tax on business. All these disadvantages are eliminated by the use of the trade acceptance which gives stability to commercial credit and transforms deferred obligations into definite assets and liabilities.

Conveniences of Open Account Retained

The right to make partial payments, which is one of the conveniences of the open account, may be arranged with the bank; and if the trade acceptance cannot be conveniently met by the customer upon its maturity, the merchant, if he desires to help him, may do so by taking the customer's promissory note with interest. Thus the merchant

granting the extension does so without the loss of interest, which results under the open account system. Since trade acceptances are not given for renewals or for old accounts, they should be settled with notes which draw interest.

Other Disadvantages Eliminated

Among other disadvantages of the open account method which will be eliminated by the general adoption of the trade acceptance may be mentioned the habit of over-buying and over-selling, the returning of goods and cancellation of orders for trivial reasons, the taking of unwarranted discounts, the secret assignments of accounts and losses from uncollectible debts.

General Advantages of Trade Acceptances

Business Conditions Improved

The trade acceptance releases funds tied up in outstanding accounts, and invested capital acquires more liquidity under a system which offers negotiable paper in place of non-negotiable open book accounts. Relations between buyer and seller are vastly improved by paper which clearly defines their respective rights and obligations, and extravagance is checked by the constant reminder to the debtor that his credit is apt to be tested at any time.

Advantages to the Buyer

The buyer derives certain advantages from the use of the trade acceptance. It develops in him the habit of careful buying, enables him to judge how he stands financially and what he can do with his capital, and it strengthens his credit. He is able definitely to fix the dates of his payments, thus developing a habit of promptness in fulfilling obligations.

The small buyer is better able to compete with larger firms since the trade acceptance gives him a better credit rating and places his business on a definite financial basis, which cannot be the case when his debts are in the form of open accounts with no means of ascertaining when they will be liquidated.

Advantages to the Seller

Sellers or manufacturers with limited capital, by the adoption of the trade acceptance method, avoid the necessity of heavy borrowing, and the tying up of their capital and borrowed money in open accounts, and as their operating expenses are reduced, their profits are accordingly increased. Moreover, the merchant can estimate with a considerable degree of certainty, what his income will be from month to month, for with its fixed date of maturity, payment of a trade acceptance can usually be counted upon. Merchants receiving trade acceptances may discount them at a bank for approximately one hundred per centum of their face value.

The practical effect of the ordinary book account is to burden the seller with the financing of the customer's business. This not only ties up the capital of the seller, thus narrowing the scope of his business, but also weakens his financial statement because of the character of his accounts. By demanding trade acceptances, the seller is able to overcome these difficulties, since eligible acceptances are considered an excellent investment for banks, and may be readily negotiated.

Advantages to the Banker

From the standpoint of a banker, the trade acceptance is a very advisable form of investment, since it represents sales actually made and offers paper secured by two names instead of by one, as in the case of a promissory note. The trade acceptance offers security upon which the banker can easily borrow by reason of the fact that eligible trade acceptances may be rediscounted at any Federal reserve bank at lower rates of interest than ordinary commercial paper.

Under this system, banks finance the sales of goods, whereas under the old system, the manufacturer or seller was forced to do this.

The bank also is enabled, through the general use of trade acceptances, to ascertain more readily the credit of its customers as well as their business methods.

Bank Acceptances

Trade and Bankers'

Acceptances Distinguished

Some confusion has arisen as to the difference between trade acceptances and bankers' acceptances. The former is the result of a transaction between the buyer and seller; the latter the result of the granting of credit by a banker. In the former case, it is the buyer who accepts the draft; in the latter it is the bank.

Definition

A banker's acceptance is defined by the Federal Reserve Board as "a bill of exchange of which the acceptor is a bank or trust company, or a firm, person, company or corpo-

ration engaged in the business of granting bankers' acceptance credits."

How Acceptance Credit is Extended

In other words, a bank acceptance consists of the extension of the bank's credit to a customer, wherein the bank, for a consideration permits the customer to use its credit. This credit may be either secured or unsecured, depending upon the business, character and financial responsibility of the applicant.

Distinction Between a Bank's Acceptance and its Note

According to an opinion of the counsel of the Federal Reserve Board, when a member bank of the Federal Reserve System accepts a draft or bill of exchange drawn against it, it enters into a contract substantially similar to that of the maker of a note, so that while the form of the instrument differs, the legal effect is the same. The use of a bank's acceptance, however, differs from the use of its promissory note. When a bank accepts a draft or bill of exchange for one of its cus-

tomers, it merely lends its credit responsibility to its customer in order that he may procure the funds elsewhere. The holder of a bank's acceptance has the same legal rights against the bank as the holder of its promissory note.

Method of Using

A bank acceptance may be created as follows:

Richard Brown, in New York, buys of John Doe, in Galveston, a quantity of merchandise. In order to reimburse John Doe in a convenient manner, Brown arranges with his bank in New York to accept, on presentation, the drafts of John Doe with documents attached. Doe thereupon, under the terms of the sale, draws on the bank, which accepts the drafts, taking possession of the documents. The drafts drawn by Doe on the bank after they have been accepted become bank acceptances. Then ensues a credit operation between the bank and Richard Brown to determine what disposition is to be made of the documents and upon what terms the bank will surrender them. This

JOHN DOE

\$ 1,000 ⁰⁰/₁₀₀

Salveston, June 19 1918

Ninety

days after sight

Carries

VICE-PRESIDENT

ASST. SECRETARY

GUARANTY TRUST CO. OF NEW YORK

NEW YORK 20 1918

40 BROADWAY

SEP 8 1918

PAID

ST

One thousand

For value received and charge to account of
To Guaranty Trust Co. of N.Y.

140 Broadway

New York, N.Y.

No. 2000

John Doe

At time of acceptance this bill was accompanied by shipping documents evidencing the domestic shipment of goods against which it was drawn.

GUARANTY TRUST COMPANY OF NEW YORK

Bank Acceptance

adjustment is easily made. The bank having agreed to pay the acceptances when they fall due, Brown undertakes to provide the bank with funds for that purpose prior to the maturity of the acceptance. (It must be borne in mind that the bank is primarily liable upon its acceptance, and that the security for its acceptance is the merchandise, which is the basis for the transaction. The bank also has the guarantee of the purchaser of the merchandise.)

Commercial Credit Bills

The foregoing case describes a documentary bill. Another form of acceptance is created when the customer draws his own draft directly on the bank, and the bank accepts it for payment at a future time. Such an acceptance would be called a commercial credit bill and might be secured by warehouse receipts or other collateral, or simply by the general credit of the customer.

Advantages of the Bank Acceptance

Bank acceptances offer certain distinct advantages, not only to merchants but also

to the banks through which they deal. The specific advantages may be summarized as follows:

The use of acceptances makes it possible for trust companies and banks to finance legitimate business transactions of their customers properly and conveniently.

Banks having surplus money which cannot readily be employed at the time can invest it in prime acceptances which can either be held until maturity or sold in the open market, should such action be necessary.

Because of their ready marketability, acceptances of well-known institutions will be sought more and more as short-term investments and will be especially valuable as such.

Advantages in Foreign Trade

At this time, when plans for fostering and building up our foreign trade are being formulated, the advantages of the adoption of the acceptance in foreign transactions is of especial importance.

Exporters who have desired to enter into foreign trade have experienced much difficulty in their inability to grant as good terms

of credit as have been accorded foreign buyers by competitors abroad. It has been the practice of many American exporters to require payment in cash at New York against documents, and the foreign trade of this country has thus been handicapped. This difficulty may be overcome by the use of bank acceptances, as the credit which is required for the goods may be established by drawing at sixty or ninety days' sight on a New York accepting bank or trust company, the acceptance being discounted at an agreed fixed rate.

Another advantage to the exporter is that he is immediately reimbursed for the value of his products or merchandise and, instead of having his capital tied up in credits, it is released for re-employment in new business.

Acceptances, based principally on the commodities exported from this country, form a valuable security. This was particularly evidenced in London at the outbreak of the war, when acceptances amounting to more than £500,000,000 were in circulation. The greater part of these were subsequently liquidated by the "self-liquidating" process; that is, by the sale of the commodity which

formed the basis of the transaction, thus proving the soundness of the accepting business in general.

High Class of Security

The standing and credit of the accepting bank make the paper it accepts a security of the highest class. The bank acceptance at once eliminates the necessity and trouble of closely investigating the drawer or the endorsers, as the primary responsibility rests with the accepting bank. If its credit is good, all other names on the paper may be of secondary importance.

Field of Buyer Broadened

Bank acceptances enhance the credit and broaden the buying field of the merchant. By means of a letter of credit from his bank to the effect that, under certain conditions and up to a certain agreed figure, it will accept all bills drawn for his account, the merchant is able to make his purchases advantageously, even in markets where he is unknown.

Bank Acceptances Quick Assets

"No opposition seems to exist today against bank acceptances on the part of the American banks, but many of them are still somewhat hesitating to execute such an obligation or to have their name offered in the open discount market," says the report of the Committee on Acceptances to the 1918 Convention of the Reserve City Bankers' Association.

"Strange to say many of these latter institutions are, however, good buyers of other banks' acceptances, realizing the advisability of carrying an extra reserve in such quick or convertible assets.

"It is the opinion of the Committee that every member of this association should return to his home town and his bank with the purpose of developing this idea not only in his own bank, but among his neighbors; to lose no opportunity to assist in the distribution and redistribution of his and his neighbor's acceptances; to give all proper preference that he consistently may to encourage the development of this form of operation in banks."

Broadening Market for Acceptances

The Fifth Annual Report of the Federal Reserve Board says:

"Increased and more general use of the bankers' acceptance has been a striking development of the past year, especially in financing domestic transactions and in the storage and movements of the grain and cotton crops. The volume of foreign drawn bills appearing in

this market, while reflecting the increased trade with the Orient, has not increased proportionately with the volume of domestic bills, due in part to shipping difficulties and in part to the settlement of a greater volume of both imports and exports by cash rather than by drawing bills.

“As compared with estimates of \$400,000,000 to \$500,000,000 of bankers’ acceptances and foreign trade bills on American merchants outstanding at the end of 1917, it is now believed that there are between \$700,000,000 to \$800,000,000 of bankers’ acceptances alone outstanding in the United States.

* * * * *

“The number of well-known banks located in other cities that are now accepting is greatly increased and much of their paper comes to New York for discount.

“With the increase in number of accepting banks and volume of bills circulating, the number of bill buyers has likewise increased. Out-of-town banks are buying more freely, and many of those which are now acceptors have also become buyers. Dealers report increased activity and interest in almost all parts of the country. The turnover of some houses has more than doubled that of last year. One house reports sales of \$720,000,000 for this year as against \$358,000,000 in 1917.

“During the year there have been accessions to the number of houses that specialize as dealers in bankers’ acceptances. Also several corporations organized to operate as discount houses have been formed. Some of

them are in operation and others are still in process of organization. Also several important foreign trade banks have come into existence and are operating. Perhaps, however, more significant of the trend of intelligent opinion as to the future of New York as an international financial center is the number of foreign banks and bankers that have already established or are about to establish branches or relations here."

Bankers' Acceptances as Investments

Bankers' acceptances are regarded by the Federal Reserve Board as the most liquid of all investments and consequently it has always permitted a substantial differential in their favor. The rates on acceptances are subject to fluctuations reflecting accurately the varying conditions of the money market. Accordingly, the Federal Reserve Board has never fixed a definite rate for them, but has prescribed maximum and minimum rates within the limitations of which Federal reserve banks are permitted to purchase bills.

The tabular statement on the next page, of acceptances bought by Federal reserve banks in the open market during the past four years shows the enormous increase in the volume of the acceptance business.

ACCEPTANCES BOUGHT IN OPEN MARKET BY FEDERAL RESERVE BANKS.*

	BOUGHT IN OPEN MARKET				PURCHASED FROM OTHER FEDERAL RESERVE BANKS	
	1915	1916	1917	1918	1917	1918
Boston.....	14,105,000	52,377,000	86,481,000	194,158,000	5,047,000	6,709,000
New York.....	25,834,000	123,406,000	445,307,000	945,498,000	19,659,000	50,182,000
Philadelphia.....	7,565,000	53,122,000	70,710,000	77,686,000	15,204,000	42,321,000
Cleveland.....	2,963,000	27,542,000	51,007,000	122,800,000	40,102,000	54,199,000
Richmond.....	250,000	11,313,000	54,759,000	70,766,000	3,357,000	331,000
Atlanta.....	72,000	12,544,000	25,388,000	45,477,000	1,005,000	2,514,000
Chicago.....	5,782,000	27,061,000	61,142,000	122,787,000	5,572,000	100,077,000
St. Louis.....	1,801,000	20,681,000	22,788,000	26,096,000	6,944,000	4,551,000
Minneapolis.....	1,455,000	13,539,000	16,397,000	13,903,000	16,675,000	25,911,000
Kansas City.....	1,788,000	8,191,000	17,561,000	14,691,000	9,264,000	19,047,000
Dallas.....	3,543,000	9,743,000	25,024,000	25,333,000	8,242,000
San Francisco.....	3,230,000	32,776,000	48,018,000	150,653,000	20,249,000	22,506,000
TOTAL.....	64,845,000	386,095,000	909,301,000	1,809,539,000	168,411,000	336,590,000

* Taken from Annual Report of the Federal Reserve Board for 1918.

Acceptances Under the Federal Reserve Act*

The Federal Reserve Board has unqualifiedly designated the trade acceptance as a favored form of commercial paper and gives preference in rates of discount to such acceptances when they conform to the requirements of the Federal Reserve Act and of the regulations of the Federal Reserve Board. In order, therefore, that much of the misunderstanding and uncertainty which has tended to discredit the merit and use of such paper may be avoided, the trade acceptance should comply with the rules and regulations of the Federal Reserve Board.

Defined by Federal Reserve Board

The Federal Reserve Board has defined the trade acceptance as "a bill of exchange drawn by the seller on the purchaser of goods sold, and accepted by such purchaser." The word "goods" as here used, means goods,

*Statements contained under this heading are based on the Federal Reserve Act, Regulations of the Federal Reserve Board, and opinions of Counsel of the Federal Reserve Board.

wares, merchandise, and all agricultural products, including live stock.

A bill of exchange is defined by the Federal Reserve Board as “an unconditional order in writing, addressed by one person to another, other than a banker, signed by the person giving it, requiring the person to whom it is addressed, to pay, in the United States, at a fixed or determinable future time, a sum certain in dollars to the order of a specified person.”

Qualifications Essential to Negotiability

To be negotiable, a bill of exchange must be an unconditional order to pay on demand, or at a fixed or determinable future time, a certain sum of money to order or to bearer, and if payment is made dependent upon a condition or contingency, the bill becomes conditional and non-negotiable.

A general acceptance of a conditional bill does not make it negotiable and a conditional acceptance of an unconditional bill destroys its negotiability, because the acceptance is

thereby made a conditional one. A qualified or conditional acceptance of a bill of exchange releases the drawer and prior indorsers. A bill drawn payable "at sight" and accepted payable in three months, has been held to be a conditional acceptance. Likewise, an acceptance to pay at a designated place different from the residence of the acceptor, when the bill stipulates that it is to be paid there and not elsewhere, qualifies the terms of the bill and renders the acceptance conditional.

Reference to Particular Consignment

If payment is confined to the proceeds of a particular fund, and is not chargeable to the general credit of the drawer, the bill is conditional and non-negotiable.

Whether reference to a particular consignment of goods renders the bill conditional has been a source of conflict in the courts, some holding that it is a mere indication of a fund out of which the drawer is to reimburse himself, others holding that the bill is thereby made conditional because limiting payment

to proceeds of the particular shipment mentioned. A reference, however, in general terms on the face of the accepted bill to the fact that it is based on exportation or importation of goods does not make it conditional and impair its negotiability.

Bills made payable "in exchange" are not payable "in money," and are therefore not negotiable. A provision in a bill that it is payable with interest at a designated rate per annum after maturity if payment is delayed, does not impair the instrument's negotiability. Likewise, by waiving demand, notice, and protest or waiving homestead exemption rights, the negotiability of the bill is not affected.

Discharge of Drawer and Indorsers

The acceptor is the principal debtor after acceptance. Notice of demand and protest must be given to parties secondarily liable in the event of dishonor, but the right to notice is personal and can be waived by drawer and indorsers, the waiver having no effect on the acceptor or principal debtor.

The drawer and indorsers of an instrument

made payable at the time specified in the bill are not released by failure to present for acceptance, unless the bill expressly provides that it must be presented for that purpose, or unless it is made payable elsewhere than at the place of business or residence of the drawee.

Acceptances by Member Banks

Under the provisions of the Federal Reserve Act, member banks are permitted to accept drafts which, excluding days of grace, have not more than six months' sight to run if one of the following conditions is present. The bill must

1. Have origin in a transaction involving the importation or exportation of goods, or
2. Arise from a transaction involving domestic shipment of goods and have shipping documents attached at the time of acceptance securing or conveying title to the goods, or
3. Be secured at the time of acceptance by warehouse receipt or other such document conveying or securing title to readily marketable staples.

Bills of the classes above designated may be accepted by member banks up to fifty

per centum of their capital and surplus, or where permission is obtained from the Federal Reserve Board, up to one hundred per centum.

Bills drawn on member banks by banks and bankers in foreign countries to furnish dollar exchange, where the usages of trade make it necessary, may be accepted by the former to an amount not in excess of fifty per centum of their capital and surplus, provided such drafts have not more than three months' sight to run.

National banks cannot accept drafts for the purpose of enabling domestic concerns to extend credits on open account to foreign purchasers.

Acceptances arising from domestic transactions may not exceed fifty per centum of the capital and surplus of the bank, which is prohibited also from accepting for any one person, firm, company or corporation, drafts aggregating more than ten per centum of the capital and surplus of the member bank. The latter limitation has no application where the draft accepted carries the attached documents above referred to, or other actual se-

curity arising from the transaction covered by the acceptance.

If, however, the aggregate amount of drafts accepted for one person, firm or corporation exceeds ten per centum of the capital and surplus of the accepting bank, such drafts must remain secured throughout their lifetime and the security cannot be released unless other actual security growing out of the same transaction as the acceptance is substituted therefor. The accepting bank may, however, release the security where the total amount accepted for any one customer does not exceed ten per centum of its capital and surplus.

Surrender of Documents

Where drafts are secured by warehouse receipts it may be necessary at some period during the life of the draft for the receipt to be surrendered to the customer for whom the acceptance was made, in order that the transaction involved may be consummated, and it is ordinarily necessary to release the shipping documents at an earlier period than in the case of warehouse receipts, but in any event

the security should not be surrendered until this becomes necessary. When the documents are surrendered the bank should protect itself by procuring either a trust receipt or a definite agreement on the part of the customer to whom the security is surrendered that the proceeds derived from the sale of the goods represented by the shipping documents or warehouse receipts will be deposited with the accepting bank when available to pay the draft at maturity and will not be used by the customer for other purposes. Where a trust receipt is substituted the ten per centum limitation applies if the receipt is of such a character as to give control over the goods to the borrower or the customer for whom the draft was accepted.

It is a sufficient compliance with the terms of the Federal Reserve Act if shipping documents are in the possession of the bank and the latter has a lien on the property represented by the documents at the time the bill is accepted. Where placed in the possession of the bank's agent and under the control of the bank, such documents may be considered as in the possession of the bank.

Applications to Federal Reserve Bank

The Federal Reserve Board has provided that any member bank with an unimpaired surplus equalling at least twenty per centum of its paid-up capital, desiring to accept up to one hundred per centum of its paid-up and unimpaired capital stock and surplus, as above described, shall file an application with the Board through the Federal reserve bank of its district. The Federal reserve bank then reports the financial status of the applying bank to the Board and states whether the general financial conditions in the district are such as to make the granting of the application advisable, whereupon the application is approved or rejected. Any approved application may be rescinded by giving ninety days' notice to the member bank.

Limitations as to Amount

The fifty per centum limitation on drafts accepted for the purpose of furnishing dollar exchange is entirely separate from and not included in the limits placed by the Act upon the acceptance by a member bank of

drafts and bills of exchange drawn against the shipment of goods or against warehouse receipts covering readily marketable staples.

Member banks purchasing their own acceptances before maturity need not include them in the aggregate of acceptances authorized by the Federal Reserve Act.

The condition attached to membership in the Federal Reserve System to the effect that in no event shall the aggregate amount of domestic acceptances outstanding at one time exceed fifty per centum of the capital and surplus of the bank, relates to drafts or bills drawn against a state member bank in domestic transactions and accepted by the latter, but not to drafts drawn by an individual against another drawee, accepted by the drawee and discounted by a state member bank.

Maturity to Approximate Duration of Shipment

Although the Act fixes a maximum maturity of six months, yet in cases where a draft is drawn against a shipment of goods in a transaction not involving the sale, the matur-

ity of the draft should approximate the duration of the transit of the goods, the law contemplating that the acceptance should be to finance the shipment and that it should not be the means of furnishing a credit for any other purpose.

Where a draft is drawn against the shipment of goods in a transaction involving their sale, the draft may be drawn and accepted for the purpose of financing not merely the shipment but also the sale of the goods. In this connection, it has been held that a draft drawn against goods shipped from a corporation to its agent may be accepted by a member bank even though no actual sale is involved.

Guarantee as to Exportation

A member bank cannot accept drafts drawn by an exporter in a foreign country to provide funds for the purchase of farm products from farmers in such country unless the foreign exporter has a contract to ship the commodities in question to some other country. Unless the member bank has a guarantee to this effect, the transaction is not one involv-

ing importation or exportation of goods, and the fact that the foreign exporter intends a sale of the goods in a foreign country is not sufficient. An actual contract of sale must exist and it must appear that the drafts are merely drawn in advance of the actual shipment of goods under the contract of sale.

Acceptances Financing Future Importations

A member bank may accept drafts drawn for the purpose of importing goods, whether or not the sale under consideration has been consummated at the time of the acceptance, but the accepting bank must be reasonably sure that the draft is drawn to finance a transaction involving importation or exportation of goods, that its proceeds will be used for that purpose and that there is a definite bona fide contract for shipment within a reasonable and specified time. If the accepting bank believes that the proceeds will ultimately be used solely for the purpose of financing the transaction involving the importation of goods, it is immaterial whether or not the goods have been actually sold at the time of the acceptance, and it is not even

necessary that the goods be identified at that time.

If the credit is granted before the importation takes place, the acceptance may be continued or renewed with propriety, while the goods are on the docks.

Drafts drawn under an arrangement whereby the drawer agrees to manufacture and import into the United States in time to meet the maturity of such drafts certain products which shall have been sold by the shipper and which are to be ready for immediate delivery and consigned to a firm of bankers procuring the acceptance of such drafts for the drawer are not eligible for acceptance by member banks, since they do not grow out of "transactions involving the importation or exportation of goods" within the meaning of Section 13 of the Federal Reserve Act.

Drafts of Persons Doing Both Export and Import Business

Where a dealer engaged in the purchase of the same character and class of goods for export and domestic use, desires to finance the purchase and sale of goods to be exported,

his agreement with a member bank accepting drafts should show that he has a contract for the exportation of the goods, that the total amount of drafts drawn under such credit will not exceed the aggregate amount involved in the export contract, that the proceeds of the drafts are to be used in connection with the export transaction, and that the proceeds of the sale of the goods exported will be applied to pay acceptances, unless the dealer has meanwhile provided the bank with funds to meet such acceptances at maturity, or has properly secured them.

Option of Dealers to Secure Drafts

A dealer having drawn drafts accepted by a member bank in an export transaction, should, with the consent of the accepting bank, be given the option to secure such drafts in the manner required of bills drawn in domestic transactions, if he desires to use the proceeds derived from the sale of the goods exported for purposes other than the payment of such drafts.

Renewals Based on Import or Export of Goods

An accepting bank, upon payment of an

acceptance, may for a reasonable period, accept new drafts for the financing of the original transaction even after shipment and delivery of the goods, if such renewals are stipulated in the original contract as an incidental condition of the transaction of importation or exportation upon which the acceptance is based.

Miscarriage of Export Transaction

If fully secured, a member bank may accept drafts drawn by a domestic firm, having a contract to sell to foreign buyers, when the transaction is made in good faith, though resulting in the ultimate sale of the goods to an American instead of to a foreign purchaser.

Attached Documents in Domestic Transactions

The provision which authorizes member banks to accept drafts based on domestic shipment of goods when shipping documents are "attached," does not mean that the documents must be physically fastened to the draft. Shipping documents must, however, be made out or endorsed so as to convey or secure title to the accepting bank.

Purchase by Member Bank of Its Own Acceptances

In the past banks were accustomed to buy many of their own acceptances because it was necessary in order to develop the acceptance market. While it is undesirable in the opinion of the Federal Reserve Board for a bank to buy its own acceptances, it is essential that the credit of the accepting bank be protected, through such purchase, where the market conditions prevent absorption.

Purchase by a bank of its own acceptances is equivalent to a loan or advance to the customer for whom the acceptance is made, and the liability of the customer is subject to the limitations placed on loans. The power of a member bank to accept drafts is entirely distinct from the power to discount acceptances of others.

Dollar Exchange

In order that a draft drawn by a foreign bank on a member bank for the purpose of furnishing dollar exchange may be accepted by the latter, the drawer must be in a foreign country or dependency or insular possession of the United States where the

usages of trade have been determined by the Federal Reserve Board to require the drawing of this character of paper. Application must first be made to the Board setting forth the usages of trade in the place where the drawer bank is located. If the Board deems the granting of the application expedient, it will notify the member bank of its approval which, however, may be revoked upon ninety days' notice to the member bank.

Eligibility

A bill or acceptance is said to be "eligible" when it may be purchased or discounted by a Federal reserve bank. In order to be eligible, it must conform to all the requirements of the Federal Reserve Board, since otherwise it cannot be purchased or discounted by Federal reserve banks and will thereby lose one of its greatest assets.

Discount by Federal Reserve Bank

A Federal reserve bank may discount for any of its member banks any note, draft or bill of exchange provided it has the following requisites:

1. It must have a maturity at the time of discount of not more than ninety days, excluding days of grace, but where drawn for agricultural purposes* it may have a maturity of not more than six months.
2. It must have arisen out of actual commercial transactions, namely, it must be an instrument drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been or are to be used for such purposes.
3. It must not have been issued to carry or trade in stocks, bonds, or other investment securities, except bonds and notes of the United States.
4. The aggregate of negotiable paper bearing the signature or indorsement of any one borrower, whether person, firm, company or corporation, rediscounted for any one member bank must not exceed at any time, ten per centum of the unimpaired capital and surplus of such bank, this restriction, however, not applying to the discount of bills of exchange drawn in good faith against actually existing values.
5. It must be indorsed by a member bank.
6. It must conform to all regulations of the Federal Reserve Board.

General Character of Eligible Instruments

The Federal Reserve Board has determined that the instrument itself to be eligible for

*See definition of "Agricultural Paper" on page 55

rediscount at a Federal reserve bank must meet the following requirements:

1. It must be an instrument whose proceeds have been used or are to be used in producing, purchasing, carrying, or marketing goods in one or more of the steps of the process of production, manufacture, or distribution.
2. It must not have been used nor contemplate use for permanent or fixed investments of any kind, such as lands, buildings, or machinery.
3. Its proceeds must not have been used nor contemplate use for investments of a purely speculative character.
4. It may be secured by the pledge of goods or collateral, if it is otherwise eligible.

Applications for Rediscount

A member bank must make application for rediscount to the Federal reserve bank, which will satisfy itself as to the eligibility of the instrument. Member banks must furnish with all applications for the rediscount of notes, drafts or bills of exchange, a certificate in form prescribed by the Federal reserve bank that to the best of their knowledge and belief, the instrument has not been issued for prohibited purposes.

Syndicate Paper

Where syndicates are formed for the purpose of granting acceptance credits for more than moderate amounts, Federal reserve banks should be consulted with regard to the transaction and will then decide the question of eligibility, both as to the character and amount of the bill, subject to the approval of the Federal Reserve Board.

Use for Commercial or Industrial Purposes

Where the proceeds of paper have been or are to be used to purchase coal or to provide funds for payment of other expenses of operation, if the paper is otherwise in conformity with the law, and the regulations of the Board, it is eligible for rediscount at Federal reserve banks. If doubt exists whether the proceeds are to be used for commercial or industrial purposes or whether for permanent or fixed investments, then the Federal reserve bank may accept a statement of the borrower showing a reasonable excess of quick assets over current liabilities to evidence the fact that it is not drawn to make a fixed investment.

Bills Drawn Against Actually Existing Values

A bill of exchange discounted before acceptance may be said to be drawn against actually existing value only when accompanied by shipping documents, or warehouse receipts, or other papers securing title to the goods sold. An accepted bill of exchange unaccompanied by shipping documents or other such papers may be considered as drawn against actually existing value if drawn against the drawee at the time of, or within a reasonable time after the shipment or delivery of the goods. In the latter case, there must be reasonable grounds for belief that the goods are actually in existence in the hands of the drawee in their original form, or in the shape of the proceeds of their sale.

Bills drawn by the seller against the purchaser and accepted before the sale or delivery of the goods should not be treated as bills drawn against actually existing values, since such goods are not in the possession of the drawee either in the original form or in the shape of the proceeds of their sale. But where the goods have passed out of the posses-

sion of the drawer and have been placed in storage subject to the control or order of the drawee a different situation would be presented.

If a trade acceptance is drawn at the time of or within a reasonable time after the sale and delivery of the goods, when there is reason to believe that the goods are in the possession of the purchaser, either in their original form or in the shape of the proceeds of the sale, it may be treated as a bill of exchange drawn against actually existing value. But if a bill is drawn for the purchase price of goods sold, in order to convert a balance carried on open account into a negotiable instrument, such a bill when accepted, might comply with the Board's definition of a trade acceptance, but could not be treated as a bill of exchange drawn against existing value, unless drawn within a reasonable time after the sale and delivery of the goods.

Agricultural Paper

Six months' agricultural paper has been declared eligible for rediscount at a Federal reserve bank if it conforms to the regulations which would apply if its maturity were ninety

days or less, instead of six months. The term "six months' agricultural paper" has reference to a note, draft, bill of exchange or trade acceptance drawn or issued for agricultural purposes, or based on the sale of live stock. It is an instrument whose proceeds have been used or contemplate use for agricultural purposes, including the breeding, raising, fattening or marketing of live stock, and which has a maturity at the time of discount of not more than six months, exclusive of days of grace.

Paper Covering Sale of Agricultural Implements

The Federal Reserve Board holds that the six months' maturity privilege does not apply to sales by a manufacturer of agricultural implements to a dealer for resale by him to a farmer since such paper must be treated as commercial and not as agricultural paper. It therefore cannot be rediscounted with a Federal reserve bank if it has a maturity of more than ninety days.

Commodity Paper

The term "commodity paper" refers to notes, drafts or bills of exchange, which are

accompanied and secured by shipping documents or warehouse, terminal or other receipts covering approved, readily marketable, non-perishable staples, which are properly insured. To be eligible for rediscount at the special rate established for commodity paper, the instrument must comply with regulations applicable to it and conform to all the requirements of the Federal reserve bank, especially those relating to shipping documents, receipts and insurance, and must be an instrument on which the rate of interest or the discount charged the maker, including the commission, does not exceed six per centum per annum. The special rate on this paper is intended to aid producers during crop moving periods, and not to assist speculators. Hence, the Federal Reserve Board may suspend the special rates whenever it is apparent that the movement of the crops which is intended to be facilitated, has been practically completed.

Discount of Bankers' Acceptances

A Federal reserve bank may discount for any member bank, bankers' acceptances hav-

ing a maturity at the time of discount of not more than three months' sight, exclusive of days of grace, which are indorsed by at least one member bank, and which grow out of transactions involving the importation or exportation of goods, or which grow out of transactions involving the domestic shipment of goods, where shipping documents are attached at the time of acceptance; or, which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples. Federal reserve banks may likewise acquire drafts or bills of exchange drawn on member banks by banks and bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange.

Eligibility of Bankers' Acceptances

A banker's acceptance, which has been defined elsewhere, in order to be eligible for rediscount must have been drawn under a credit opened for the purpose of conducting or settling accounts resulting from transactions involving:

1. The shipment of goods between the United States and a foreign country, or between the United States and any of its dependencies or insular possessions, or between foreign countries, or
2. The domestic shipment of goods, where shipping documents are attached at the time of acceptance, or
3. It must be a bill secured at the time of acceptance by warehouse receipt or other such document conveying or securing title covering readily marketable staples.

A Federal reserve bank may acquire bills drawn to furnish dollar exchange which have been accepted by a member bank in accordance with the regulations relating to acceptances by member banks, and these bills may be acquired prior to acceptance where indorsed by a member bank.

Evidence as to Eligibility

Federal reserve banks must be satisfied from the acceptance itself or otherwise that it is eligible for rediscount. The evidence of eligibility may consist of a stamp or certificate affixed by the acceptor in a form satisfactory to the Federal reserve bank, but no evidence is required where a bill is accepted by a national bank.

Acceptance Pledged as Collateral Security

Where an acceptance house purchases an acceptance based on the importation or exportation of goods and desires to reimburse itself by drawing a bill upon a national bank, the acceptance, which was based upon the transaction involving the importation or exportation of goods, being pledged as collateral security for the bill, the new bill cannot be said to grow out of the original export transaction in the sense contemplated in the Federal Reserve Act. Hence, a national bank cannot accept a draft drawn under these circumstances, since it is not an acceptance growing out of a transaction involving the importation or exportation of goods, and because it is not an acceptance of that class authorized by the amendment of September 7, 1916. It is not drawn by a bank or banker located in a foreign country and does not grow out of a transaction involving the domestic shipment or storage of goods.

Readily Marketable Goods

If a new transaction is entered into after importation has been completed, it would

constitute a domestic transaction, in which case it must be decided whether or not the goods are to be considered "readily marketable." If they are, the acceptor must be secured by warehouse receipts or other documents.

The Federal Reserve Board has ruled that drafts or bills of exchange drawn in domestic transactions against a national bank cannot be accepted when secured by a chattel mortgage on cattle, but only when accompanied by shipping documents or when secured by a warehouse receipt or other similar documents conveying or securing title to readily marketable staples. While cattle may be treated as readily marketable staples, a chattel mortgage is not regarded as a document similar to a warehouse receipt since the borrower retains the possession of the goods and conveys to the bank only the legal title. The Federal Reserve Board, having concluded that national banks and member banks are not authorized to accept bills secured by chattel mortgages on cattle, has deemed it advisable that Federal reserve banks should con-

sider as ineligible bills drawn against the security of such chattel mortgages, whether accepted by member or non-member banks.

Bona Fide Sale Necessary

Where a transaction against which a draft is drawn, involves a direct sale to a foreign purchaser, the fact that it may be consummated before the exportation actually commences is immaterial, if the transaction is bona fide and the accepting bank has no reason to believe that the purchaser will divert the goods from their foreign destination.

Trust and Warehouse Receipts as Security

When an acceptance is secured by shipping documents which are surrendered by the acceptor for a trust receipt, which permits the purchaser to retain control of the goods, the accepting bank is not secured "by some other actual security." A trust receipt, however, which does not permit the purchaser to procure control of the goods may be said to be actual security within the meaning of the act.

Warehouse receipts on other goods may be substituted by a mill for cotton receipts during the life of the acceptance, but Federal reserve banks should make sure that the receipt belonging to the mill receiving the credit is issued by a warehouse which is independent of the borrower.

Discount of Renewals

First acceptances which have matured may be renewed by member banks provided the original contract so specifies, and Federal reserve banks may discount such renewed acceptances, although they may not engage in advance to make such discount of a renewal.

A bank may resell or reissue its own acceptances and they may be treated as acceptances outstanding and not as loans. This applies to those sold or discounted with the Federal reserve bank, and also to acceptances sold in the open market.

Purchase of Acceptances by Federal Reserve Banks

Federal reserve banks may purchase and sell in the open market, bills of exchange and

bankers' acceptances of the kinds made eligible for rediscount with or without indorsement of a member bank.

General Character of Eligible Instruments

The Federal Reserve Board has ruled that to be eligible for such purchase, the bill or acceptance:

1. Must not have been issued to carry or trade in stocks, bonds or other investment securities, except bonds and notes of the United States Government.
2. Must not be a bill whose proceeds have been used or contemplate use for permanent or fixed investments of any kind, such as land, buildings, or machinery, or for investments of a purely speculative character.
3. Must have been accepted by the drawee prior to purchase by the Federal reserve bank, unless accompanied and secured by shipping documents or by a warehouse, terminal, or other similar receipt, conveying security title.
4. May be secured by the pledge of goods or collateral, if otherwise eligible.

Evidence as to Eligibility

Federal reserve banks must satisfy themselves that the bill offered for purchase has all the requirements of eligibility. This evidence usually appears on the face of the bill,

which bears a stamp or certificate affixed by the drawer or acceptor showing it to be a trade acceptance.

Bills of Exchange and Trade Acceptances

The above are general requisites applicable to all acceptances. In the case of trade acceptances, in addition to the conditions prescribed in the definition of eligibility, the bill must have arisen from an actual commercial transaction, and must have a maturity of not more than ninety days, excluding days of grace. It must carry also the indorsement of a member bank or else a satisfactory statement must be supplied as to the financial status of at least one of the parties to the bill.

Acceptances of Non-Member Trust Companies

Bills drawn on and accepted by a trust company not a member of the Federal Reserve System, where the proceeds are to be used for purchasing raw material or in the payment of labor, where the goods have not been sold and no warehouse receipt or

other instrument can be furnished, are ineligible for purchase by a Federal reserve bank.

Purchase of Bankers' Acceptances by Federal Reserve Banks

The Federal Reserve Board regulations prescribe that in order for a banker's acceptance to be eligible for purchase, the bill must have a maturity at the time of purchase of not more than three months, exclusive of days of grace, and must have been drawn under a credit opened for the purpose of conducting, or settling accounts resulting from a transaction or transactions involving—

1. The shipment of goods between the United States and any foreign country, or between the United States and any of its dependencies or insular possessions, or between foreign countries; or
2. The shipment of goods within the United States, provided the bill at the time of its acceptance is accompanied by shipping documents; or
3. The storage within the United States of readily marketable goods provided the acceptor of the bill is secured by warehouse, terminal or similar receipt;
or
4. The storage within the United States of goods which

have been actually sold, provided the acceptor of the bill is secured by the pledge of such goods; or

5. It must be a bill drawn by a bank or banker in a foreign country or dependency, or insular possession of the United States for the purpose of furnishing dollar exchange.

In the latter case the country, dependency or possession where the foreign banker resides, must have been one whose usages of trade have been determined by the Federal Reserve Board to require the drawing of such bills.

Statements

Federal reserve banks may purchase or sell in the open market, with or without indorsement by a member bank, drafts having not more than three months' sight to run, whether accepted by member banks, or by non-member banks, trust companies, or private bankers, but before bills not accepted or indorsed by member banks are eligible for purchase by Federal reserve banks, the acceptor must present a satisfactory statement of his financial condition to the Federal reserve bank and must agree in writing to furnish the Federal Reserve Board, upon request, with any information regarding the transaction which underlies the acceptance.

Acceptances Under the Laws of New York

New York State Banking Law

The New York State Banking Law permits greater latitude than does the Federal Reserve Act. In New York, state banks and trust companies may issue acceptances without security and without reference to the exportation and importation of goods.

Section 185, subdivision 10, of the New York State Banking Law relating to trust companies, and Section 106, subdivision 2 of the New York State Banking Law relating to state banks, permit them

“To accept for payment at a future date drafts drawn upon it by its customers, and to issue letters of credit authorizing the holders thereof to draw drafts upon it or its correspondents, at sight or on time, not exceeding one year.”

Section 108 of the New York State Banking Law, relating to banks, and Section 190, relating to trust companies, limit the liabilities resulting from extensions of credit by means of letters of credit, acceptance of drafts, or discount or purchase of notes or bills of exchange, or other obligations of any indi-

vidual, partnership, unincorporated association, corporation or body politic to ten per centum of the capital stock and surplus of such bank or trust company. These restrictions do not apply to loans to, or investments in the interest-bearing obligations of the United States, the State of New York or any city, county, town or village of such State.

*Institutions in Boroughs with
Population of Two Millions*

Where the bank or trust company is located in a borough having a population of two millions or over, its loans to any state, other than the State of New York, or to any foreign nation, or municipal or railroad corporation, subject to the jurisdiction of a public service commission of New York State, may equal but not exceed twenty-five per centum of the capital and surplus of the lending institution.

It may, likewise, lend to any individual, partnership, unincorporated association, or to any other corporation or body politic amounts not exceeding twenty-five per centum of its capital and surplus, but the liabili-

ties or loans in such case must be upon drafts or bills of exchange, drawn in good faith against actually existing values, or upon commercial or business paper actually owned by the person negotiating same to the lending institution, and be indorsed by such person without limitation; otherwise such liabilities in excess of ten per centum of the capital and surplus and not in excess of an additional fifteen per centum, must be secured by collateral having an ascertained market value of at least fifteen per centum more than the amount of liabilities secured.

Other Institutions

If the bank or trust company is located elsewhere in the State, its loans to any state, other than the State of New York, or to any foreign nation or a municipal or railroad corporation or corporation subject to the jurisdiction of a public service commission of New York State may equal but not exceed forty per centum of the capital and surplus of such institution. The total liabilities to such institution of any individual, partnership, unincorporated

association, or of any other corporation or body politic may equal but not exceed forty per centum of the capital and surplus of such institution, but the liabilities or loans in such case must be upon drafts or bills of exchange drawn in good faith against actually existing values, or upon commercial or business paper actually owned by the person negotiating the same to the lending institution, and be endorsed by such person without limitation; otherwise such liabilities in excess of ten per centum of the capital and surplus and not in excess of an additional thirty per centum, must be secured by collateral having an ascertained market value of at least fifteen per centum more than the amount of liabilities secured.

In computing the total loans to an individual, all loans to any partnership or unincorporated association of which he is a member, made for his benefit or for that of his firm, shall be included. Loans to a partnership or unincorporated association shall include all those made for its benefit as well as for the individual members, and in loans to a cor-

poration there shall be included all those made for the benefit of the corporation.

Savings Banks in New York

By virtue of an amendment to the New York banking laws which was signed by the Governor, on April 19, 1918, the deposits and guaranty fund and the income derived therefrom of savings banks may be invested in bankers' acceptances and bills of exchange of the kind and maturities made eligible for rediscount with Federal reserve banks, where the same are accepted by a bank, national banking association or trust company, incorporated under the laws of New York State or under those of the United States, and having its principal place of business in the State of New York.

Limitations in Purchases

Under this amendment, savings banks cannot invest in such acceptances more than twenty per centum of their assets, less the amount of the available fund held pursuant to the Banking Laws for the purpose of paying withdrawals in excess of receipts and

meeting current expenses, or for the purpose of awaiting a more favorable opportunity for investment.

The aggregate liability of any bank, national banking association or trust company to any savings bank for acceptances held and deposits made by the latter is limited to twenty-five per centum of the paid-up capital and surplus of such bank, national banking association or trust company.

Not more than five per centum of the aggregate amount credited to the depositors of a savings bank can be invested in the acceptances of or deposited with a bank, national banking association, or trust company of which a trustee of such savings bank is a director.

Market for Acceptances

In New York, where the largest open market for discounts has been established, most of the business is a matter of trading. One banker or broker calls up another and offers or inquires for a certain volume and

kind of acceptance; for instance, "\$100,000 Guaranty Trust." In London the method of procedure is similar, but in Paris and other cities, the buying and selling are done in an established exchange which fixes the discount rates.

Amounts Most in Demand

On the London market it has been the rule for some years to limit the amount of a single bill of exchange to £5,000. The reason for this is that acceptances of £5,000 and less are more quickly negotiable than those of larger denominations. In the New York market trade acceptances in denominations of from \$5,000 to \$10,000, and bank acceptances in denominations of from \$25,000 to \$50,000 appear to be most in demand.

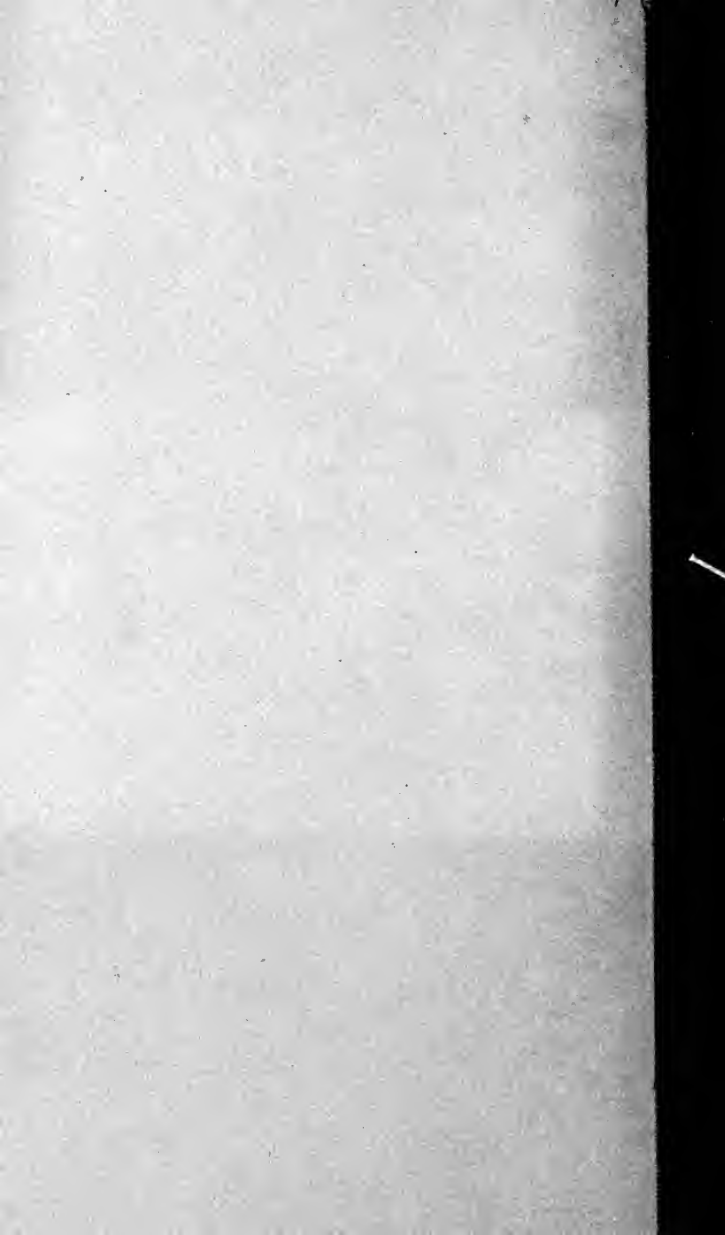
Beginning of the Market in New York

The acceptance business in the United States had its actual beginning shortly after the outbreak of the European War. When the London market had to restrict its acceptances, owing to the new conditions arising

from the war, the Guaranty Trust Company immediately began issuing dollar letters of credit payable in New York.

The difficulty at that time was the absence of a market for acceptances. At first, when bills were offered from abroad, drawn under the Guaranty Trust Company's dollar letters of credit, the Company itself at first had to bid for them. Gradually other banks began bidding and this action resulted in lowered discount rates. Later, rates dropped still further until, at the beginning of 1915, the ruling rate was from three per centum to three and one-half per centum. About the same time, the situation began to clear in the American money market. Bankers and brokers were freely bidding for acceptances, thus showing that a discount market was near at hand and that the only thing lacking was the acceptances. The Guaranty Trust Company supplied this deficiency with the issuance of further acceptance credits for account of its customers. The market soon indicated that it could absorb more, and the result was that the discount rate fell to about

two and one-half per centum. A number of brokers who saw the possibilities in this new line of business, advertised all over the country, recommending the purchase of acceptances. This, together with the amendments to the Federal Reserve Act which have been favorable to this class of paper, has done much to develop the growth of the acceptance market.



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